Regulating Alternative Finance – The Case of Fundkiss in Mauritius

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Regulators worldwide face the challenge of regulating alternative finance. Regulators approaches to understanding financial technology have varied from the 'test and learn' approach adopted at the launch of M-Pesa[1], and sandboxes – such as in the UK. Pezesha[2], a Kenyan crowdfund obtained a no objection letter, through the SEC sandbox, in October 2020. Just like the case of M-Pesa, a no objection letter does not create a policy and regulatory framework. That comes later. So understanding precedes regulation.

Similarly, policy towards alternative finance is evolving around Africa, the Bank of Ghana's recent policy note on crowdfunding[3] suggests all crowdfunding will be regulated by the Bank of Ghana and the Securities and Exchange Commission through already regulated financial institutions. It is not clear whether this will stimulate alternative finance or simply absorb its mechanisms into the formal financial sector. The approach in Nigeria[4] was different the Nigerian Securities and Exchange Commission published draft regulations for crowdfunding that involves the issuance of securities,

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[1] This is discussed in two First Principles Blogs, firstly – Cracknell, David (2020) "Kenya's Remarkable Financial Inclusion Journey", First Principles Consulting, Nairobi and secondly – Cracknell, David (2021), "The M-Pesa Case Study – by Professor Njuguna Ndung'u", First Principles Consulting, Nairobi available on www.firstprinciplesinfinance.com/blogspot/

[2] For more details see Capital Markets Authority (2020) Press Release, "Pezesha Exits from the CMA Regulatory Sandbox", Nairobi, https://bit.ly/3mAOxH4

[3] Bank of Ghana (2021) "Crowdfunding Policy", Accra, Bank of Ghana accessible on https://bit.ly/3a1Pz9W

[4] Security and Exchange Commission, Nigeria (2020). "Exposure of Proposed New Rules and Regulations of the Commission – Proposed Rules on Crowdfunding", Lagos https://bit.ly/3fXoTep

which sets out clear criteria, roles and responsibilities for equity based crowdfunds. In this way the SEC is trying to balance evolving the market with its duty to protect stakeholders.

Fundkiss

This blog outlines the journey of Fundkiss. Fundkiss, is a peer-to-peer lending (or loan-based crowdfunding or crowdlending) platform based in Mauritius which matches individual and corporate investors with Mauritian SMEs. Fundkiss has developed through largely supportive policy makers, who were at the same time on a significant learning curve of their own.

Fundkiss was conceptualised by its co-founders (Paul Perrier, Ludovic Rajibe, and Alexandre Bechard) in 2015 after they learned of the launch of loan-debt crowdfunding in France through a specific regulation. The Fundkiss team joined a new incubator called Turbine an initiative of ENL[5] through which the Fundkiss concept evolved and was evaluated by experts. However, no policy or regulatory framework existed at that time in Mauritius for peer-to-peer lending (or loan based- crowdfunding or crowdlending).

The FundKiss team presented their concept to the Ministry of Finance, the Financial Services Commission (FSC) and to the Economic Development Board (EDB). They were told that no specific legislation would be drafted. However, in July 2016 in the National Budget, a Regulatory Sandbox License (RSL) was announced – which was created through legislation that passed Parliament in December 2016. Fundkiss applied for the RSL in January 2017 which it obtained in July 2017 after meeting the set criteria. The Fundkiss platform started its operations in 2019.

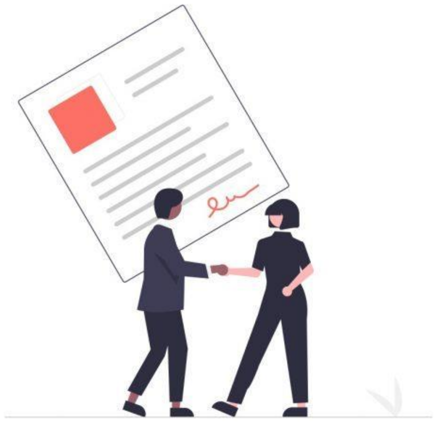
Whilst Fundkiss now had a license to operate, the regulatory framework under which it should operate was still to be defined. This was the case with M-Pesa in Kenya. Time was required for regulators and policy makers to learn from the experience of Fundkiss. In 2020 the Financial Services Commission published its initial Peer-to-peer Lending Rules[6] which were amended in 2021 following interaction with the industry.

The Fundkiss example shows the benefit of proactive engagement between policy makers and regulators in Mauritius and its emerging industry as a step towards positioning Mauritius as the next Fintech hub for Africa[7]. The blog below has been reproduced with permission from Paul Perrier the CEO of Fundkiss.

[5] ENL received subsidies from the Government through the Mauritius Research and Innovation Council – MRIC
[6] Financial Service Commission, Mauritius (202i1) “Financial Services (Peer to Peer Lending) (Amendment) Rules 2021”, available on https://bit.ly/3mBAD7D
[7] Wright Bianca (2019), “How Mauritius is positioning itself as the next fintech hub for Africa”, CIO Magazine https://bit.ly/3mFfv0i

Regulation is trust: What does operating under the FSC's Peer-to-Peer Lending license mean for our stakeholders and us?

The Fundkiss team



As a fintech company, we strive to transform the financial services landscape with innovation. Trust is an important currency in the financial sector and even more so in fintech, which is an emerging activity in Mauritius. To enhance investor and borrower trust in what Fundkiss stands for, we place great importance on regulatory approval and oversight.

Beginning of April 2021, our journey reached a very exciting milestone. We were granted a **Peer-to-**

Peer Lending license (P2P license) from Financial Services Commission (FSC), the regulating body of all non-banking financial activities in Mauritius. This marks our move from the Regulatory Sandbox License we operated under for the last two years, granted to us by the Economic Development Board (EDB) Mauritius.

This license approval supports our growth trajectory and opens a world of opportunities for us. Here are some of the changes the P2P license brings.

WHAT DOES IT MEAN FOR OUR BORROWERS?

Bigger projects – Fundkiss can now help fund **business loans between MUR 50,000 and MUR 5million**. The previous ceiling on the loan amount was MUR 3million. This means bigger projects and more diversity within our borrower community.

Robust Credit Underwriting – We will now be able to partner with the Mauritius Credit Information Bureau (MCIB) to create a faster approval process for loan applications. Fundkiss will now also be under obligation to report late and non-payments to MCIB.

Fundkiss meets the world! – The regulatory approval allows Fundkiss to arrange for finance projects in foreign currencies. This opens possibilities for overseas borrowers in the region to fund their development projects through Fundkiss.

WHAT DOES IT MEAN FOR OUR LENDERS?

The recent changes to the Peer-to-Peer Lending FSC Rules in 2021 bring some notable changes for lenders at Fundkiss. These include:

Higher investment ceilings for individual investors – Individual investors can lend between MUR 5,000 to MUR 100,000. Individual lenders will now be able to invest a cumulative maximum of MUR 1.5 million for any 12-month period.

Our internal policy caps the maximum amount an individual investor can invest in a single project to MUR 100,000 remains. This ceiling recognises the need for lenders to minimise risk through diversification in investments.

Higher investment ceilings for institutional investors – Institutional investors can lend between MUR 5,000 to MUR 1 million. Institutional investors will now be able to invest a maximum MUR 3 million per year, cumulatively.

For institutional investors, the maximum amount they can invest in a single project is limited to MUR 1 million per project.

Introduction of Expert Investors – An Expert Investor is an individual or institutional investor who i) makes an initial investment of at least US $100,000 or approximately MUR 4million on the Fundkiss platform or ii) is a Sophisticated investor as defined in the Securities Act 2005 **such as investment advisers etc.**

Expert investors have no restrictions on the maximum amount they can invest with Fundkiss.

Welcome foreign Investors! – With the P2P license, foreign investors will now be able to lend on Fundkiss with no restrictions on the maximum amount they can invest with Fundkiss.

WHAT DOES IT ALL MEAN FROM A TAXATION PERSPECTIVE?

Exemptions – Tax rate on earnings from interest on the platform was previously 15%. Now, both institutional and individual investors can benefit from an 80% tax exemption on their interest income earned on the platform, effectively bringing down the tax rate to 3%.

Debt from amount lent through the platform, which have been declared as 'bad debts', may also be deducted from any interest received from money lent on the platform. Any unrelieved debt could be set off against future interest income receivable in succeeding income years.

AND LASTLY, WHAT DOES IT MEAN FOR FUNDKISS?

The regulatory approval establishes Fundkiss as a full-fledged and trusted fintech player in Mauritius, which will contribute to accelerating our growth and development. We will be able to create more collaborative partnerships and welcome more institutional and individual investors to the Fundkiss platform, all of which will benefit the SME community in Mauritius.

With the P2P license, the ability to fund overseas projects and onboard overseas investors opens opportunities to international expansion.

All of this, while staying true to our mission of simplifying and democratising the financing of SMEs in Mauritius by building a digital solution that offers a great customer experience.

And most of all, we will continue to play our modest part in helping the Mauritian economy grow again, at a time when it truly needs it.

The full version of the FSC's P2P Lending Rules can be found at '*Financial Services (Peer to Peer Lending) Rules 2020'* and '*Financial Services (Peer to Peer Lending) (Amendment) Rules 2021*'.

This blog is one of a series of blogs, should you wish to sign up to receive additional blogs, please write to David Cracknell at david@firstprinciples.consulting. David Cracknell is the Director of First Principles Consulting Limited, based in Nairobi, Kenya. He advises financial institutions, governments, policy makers and donors on financial services, including digital finance, policy and regulation, and inclusive finance.